



Information Bulletin

Teachers' Retirement System of the State of Illinois

Tax Treatment of Interest Payments to TRS

Number: 0008

Interest paid to the Teachers' Retirement System (TRS) for the purchase of out-of-system service credit, service credit that has been withdrawn through a refund, or other optional service credit is not deductible for federal or state income tax purposes.

Internal Revenue Service (IRS) Ruling 70-314 states that interest paid on amounts due in accordance with provisions of the Illinois Pension Code is not deductible. IRS' rationale is that to be deductible, interest must result from a debtor-creditor relationship and be based on an unconditional and legally enforceable obligation to pay a fixed or determinable sum of money.

In these situations, the member is electing to obtain additional service credit. If the payments with interest are not made as required, TRS has no legally enforceable right to obtain payment. The only penalty would be the loss of credit to the member.

Although not deductible in the year paid, contributions and interest paid with previously taxed dollars are not subject to federal income taxes when paid back to the member as part of TRS benefits or a refund. At retirement, they will increase the nontaxable percentage of the retirement annuity.

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